

Excelsior District #1

**FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

June 30, 2008

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Management's Discussion and Analysis

For the year ended June 30, 2008

Our discussion and analysis of Excelsior School District #1, Crawford School's (the "School District") financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2008. Please read this analysis in conjunction with the School District's financial statements, which immediately follow this section.

DESCRIPTION OF REPORTING ENTITY AND SERVICES PROVIDED

Excelsior School District #1 is one of the few remaining one-room school houses in Michigan. The School District is located in the heart of Kalkaska County. Crawford School serves students in grades Kindergarten through 8th grade. The blended pupil count for the 2007-2008 school year was 50.5 pupils. Many of the students attended the School District under the Schools of Choice Program. Students attending the School District are afforded more individualized attention due to small class sizes. Educators in the School District are committed to the philosophy that all children are capable of learning if they have the appropriately specified learning tasks and a suitable amount of time commensurate with their individual learning rates. Excelsior School District #1 offers a core academic curriculum that meets and or exceeds State guidelines at all levels.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three sections presented in the following order: Management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the School District:

- The first two statements are *district-wide financial statements* that provide comprehensive *short-term* and *long-term* financial information about the School District as a whole.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the School District, reporting the School District's operations *in more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about assets held by the School District in a *trustee* or *agent* capacity.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data and supporting documentation. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the School District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged.

Figure A-1

District Financial Report Organization

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

Notes to Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Funds

Other Supplemental Information

DISTRICT-WIDE STATEMENTS

The district-wide statements provide comprehensive information about the entire School District using the accrual basis of accounting which is similar to the method used by private-sector companies. The statement of net assets includes all of the School District's assets and liabilities and the difference between the two, which is net assets. The statement of activities accounts for all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction and supporting services. Unrestricted State Aid and property taxes finance most of these activities.

The two district-wide statements report the School District's *net assets* and how they have changed. Examining net assets is one way to measure the School District's financial health or *position*. Over time, increases or decreases in the School District's net assets are an indicator of whether its financial position is improving or declining. The relationship between revenues and expenses is the School District's operating results, or in other terms, whether the School District had a profit or a loss at year end. However, the School District's mission is not simply to generate profits, as may be the case for a commercial entity.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the School District's funds. Each major fund is presented in a separate column. Non-major funds are aggregated and displayed in a single column. Funds are accounting devices the School District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State law and by bond covenants. The School District has two kinds of funds:

Governmental funds:

All of the School District's basic services are included in governmental funds. Governmental fund reporting generally focuses on how dollars flow in and out of the funds and the balances left at year-end. These balances are reported using the modified accrual basis of accounting. Revenues are recognized when they are measurable and available. Expenditures are recorded when the related fund liability is incurred. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. The relationship or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are presented in a reconciliation displayed further in our documentation. The School District's major governmental fund is the general fund.

Fiduciary Funds:

The School District is the Trustee, or fiduciary, for assets that belong to others. The School District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes, and only by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the School District cannot use these assets to finance its operations. The Student Activities Account is accounted for as a fiduciary fund.

The District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2008:

TABLE 1

	Governmental Activities <u>2006-2007</u>	Governmental Activities <u>2007-2008</u>
Assets		
Current and other assets	\$311,678	\$373,790
Capital assets	<u>85,662</u>	<u>82,277</u>
Total assets	397,340	456,067
Liabilities		
Current liabilities	32,066	41,620
Long-term liabilities	<u>-</u>	<u>-</u>
Total liabilities	32,066	41,620
Net Assets		
Invested in property and equipment – Net of related debt	85,662	82,277
Unrestricted	<u>279,612</u>	<u>332,170</u>
Total net assets	<u>\$365,274</u>	<u>\$414,447</u>

The above analysis focuses on the net assets (see Table 1). The School District's net assets were \$414,447 at June 30, 2008 as compared to \$365,274 at June 30, 2007. The increase in net assets is primarily the result of increased revenue generated from enrollment plus continued conservative spending practices. Capital assets, net of related debt totaling \$82,277, compares the original cost, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. The School District has no debt related to the acquisition of capital assets. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The School District has no restricted net assets. The remaining amount of net assets (\$332,170) was unrestricted.

The \$332,170 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills today, including all of our non-capital liabilities; we would have \$332,170 remaining. The operating results of the School District will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2008 as compared to the previous year.

TABLE 2

	Governmental Activities <u>2006-2007</u>	Governmental Activities <u>2007-2008</u>	% <u>Change</u>
Revenue -			
Program revenue:			
Operating grants and contributions	\$ 34,227	\$ 39,289	(14.8%)
General revenue:			
Property taxes	103,785	99,805	(3.8%)
State School Aid- unrestricted	248,710	264,452	6.3%
Other	<u>16,118</u>	<u>18,460</u>	14.5%
Total revenues	\$402,840	\$422,006	4.8%
Functions/Program Expenses:			
Instruction	\$221,415	\$243,892	10.2%
Support services	94,482	108,204	14.5%
Other transactions	21,693	5,669	(74.0%)
Depreciation (unallocated)	<u>14,600</u>	<u>15,068</u>	3.2%
Total expenses	<u>\$352,190</u>	<u>\$372,833</u>	5.9%
Increase in Net Assets	<u>\$ 50,650</u>	<u>\$ 49,173</u>	(2.9%)

As reported in the statement of activities, the cost of all of our governmental activities this year was \$372,833. Certain activities were partially funded from those who benefited by other grants and contributions (\$39,289). We paid for the remaining "public benefit" portion of our governmental activities with \$99,805 in taxes, \$264,452 in State Aid, and with other revenues including interest and general entitlements.

The School District experienced an increase in net assets of \$49,173. Key reasons for the change in net assets was the continuing conservative approach the School District took on spending due to the continued poor economic condition of the State of Michigan.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State Aid constitute the vast majority of School District operating revenue sources, the School Board and Administration must annually evaluate the needs of the School District and balance those needs with State prescribed available unrestricted resources.

The District's Funds

As noted earlier, the School District uses fund accounting to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health. The School District's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund. The General Fund is the main operating fund of the School District. All other funds would be used to account for the proceeds from specific revenue sources that are legally restricted to certain types of expenditures.

As the School District completed this year, the governmental funds reported a combined fund balance of \$332,170, which is an increase of \$52,558 from the prior year. The primary reason for the increase was due to continued fiscal restraint shown in the area of expenditures.

The School District does not have any debt obligations; accordingly, no debt retirement fund balance exists at year end.

Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with numerous changes in expected revenues and expenditures. The Uniform Budget Act of the State of Michigan requires that the Board of Education adopt a budget for the upcoming school year prior to July 1, which is the start of the new fiscal year. The School District revised its budget one time during the fiscal year. Under normal circumstances, the School District adjusts its budget to reflect a wide variety of Federal and State programs, many of which are not finalized until well after the School District's original budget is required to be adopted. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations.

The School District experienced a slight increase in students over the 2006-2007 school year. The Board of Education was very conservative with its spending because of the uncertainty of the financial position in the State. The budget was adjusted during the year to reflect changes in grant funding and expenditures. The General Fund experienced an increase of \$52,558 in fund balance. This was a favorable variance of \$21,432 over the final budget estimate.

A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2008, the School District had \$82,277 invested in a range of capital assets including buildings, land, furniture, equipment and a vehicle. This amount represents a decrease of \$3,385 in net capital assets from June 30, 2007. The School District upgraded the wiring and lighting throughout the entire school house.

	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
Capital Assets	\$118,484	\$ 11,683	\$ -	\$130,167
Less: Accumulated Depreciation	<u>(32,822)</u>	<u>(15,068)</u>	<u>-</u>	<u>(47,890)</u>
Total capital assets, net	<u>\$ 85,662</u>	<u>\$(3,385)</u>	<u>\$ -</u>	<u>\$ 82,277</u>

Debt

At June 30, 2008 the School District had no debt owing.

Economic Factors and Next Year's Budgets and Rates

At the time these financial statements were prepared and audited, the School District was aware of a number of circumstances that could significantly affect the financial health of Excelsior District #1.

- The current retirement rate is 16.72%. The retirement rate will decrease to 16.34% in 2008-2009. The retirement system was revalued in the 2006-07 fiscal year, hence creating a one time revenue source for the School Districts. The restatement leaves a smaller window of smoothing for retirement valuation costs when market conditions might not be so favorable. Containment of costs within the retirement system continues to be a concern for all Michigan school districts. The artificial reduction in the rate for the 2007-2008 school year passes along higher increases to future years.
- Pressures on health insurance premiums continue to be a problem. The School District received double digit health insurance increases again for the new school year. The School District did change some health benefits in the 2007-2008 school year, but alternatives to the current provider will be considered.

- We are very concerned about the State School Aid Budget, as well as the current economic outlook of the State economy. The budget for the 2008-2009 school year projects an increase of about \$100 more per pupil, but there are concerns with the health of the state economy and whether the revenues will be there to support the budget passed.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Stephanie Murray, Director of Human Resources, Finance and Administrative Services at Traverse Bay Area Intermediate School District, 1101 Red Drive, P.O. Box 6020, Traverse City, MI 49696-6020, Fax (231) 922-6270, Telephone (231)922-6200.



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Our clients' success – our business

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Excelsior District #1

We have audited the accompanying financial statements of governmental activities, each major fund and the aggregate remaining fund information of **Excelsior District #1** (the "School District") as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior comparative information has been derived from the School District's financial statements and, in our report dated August 31, 2007, we expressed an unqualified opinion on the respective financial statements of the governmental activities.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Excelsior District #1 as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2008, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Member of



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The management's discussion and analysis on pages i - vii and the budgetary comparison information on page 18, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Dennis, Gartland & Niergarth

October 3, 2008

Excelsior District #1
STATEMENT OF NET ASSETS
June 30, 2008
(with comparative totals for June 30, 2007)

	Governmental Activities	
ASSETS	2008	2007
Current assets		
Cash and cash equivalents	\$ 321,628	\$ 265,304
Accounts receivable	855	-
Due from other governmental units	51,307	46,374
Total current assets	373,790	311,678
Non-current assets		
Capital assets, net of accumulated depreciation	82,277	85,662
Total assets	<u>\$ 456,067</u>	<u>\$ 397,340</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Current liabilities		
Accounts payable	\$ 3,200	\$ 325
Salaries payable and related expenses	38,420	31,741
Total current liabilities	41,620	32,066
NET ASSETS		
Invested in capital assets, net of related debt	82,277	85,662
Unrestricted	332,170	279,612
Total net assets	414,447	365,274
Total liabilities and net assets	<u>\$ 456,067</u>	<u>\$ 397,340</u>

The accompanying notes are an integral part of these financial statements.

Excelsior District #1

STATEMENT OF ACTIVITIES

Year ended June 30, 2008

(with comparative totals for the year ended June 30, 2007)

Functions/Programs	Expenses	Program Revenues		Net Expense and Changes in Net Assets	2007
		Charges For Services	Operating Grants and Contributions		
Governmental activities					
Instruction	\$ 243,892	\$ -	\$ 35,812	\$ (208,080)	\$ (189,942)
Supporting Services	108,204	-	3,477	(104,727)	(91,728)
Other transactions	5,669	-	-	(5,669)	(21,693)
Depreciation-unallocated	15,068	-	-	(15,068)	(14,600)
Total governmental activities	\$ 372,833	\$ -	\$ 39,289	(333,544)	(317,963)
General purpose revenues					
Property taxes					
Levied for general purposes				99,805	103,785
State school aid - unrestricted				264,452	248,710
Grants and contributions not restricted to specific programs				11,728	9,620
Investment and other				6,732	6,498
Total general purpose revenues				382,717	368,613
Change in net assets				49,173	50,650
Net assets, beginning of year				365,274	314,624
Net assets, ending of year				\$ 414,447	\$ 365,274

The accompanying notes are an integral part of these financial statements.

Excelsior District #1**BALANCE SHEET - GOVERNMENTAL FUNDS**

June 30, 2008

(with comparative totals for June 30, 2007)

	<u>General Fund</u>	
	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents	\$ 321,628	\$ 265,304
Accounts receivable	855	-
Due from other governmental units	<u>51,307</u>	<u>46,374</u>
Total assets	<u>\$ 373,790</u>	<u>\$ 311,678</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$ 3,200	\$ 325
Salaries payable and related expenses	<u>38,420</u>	<u>31,741</u>
Total liabilities	<u>41,620</u>	<u>32,066</u>
FUND BALANCE		
Unreserved and undesignated, reported in General Fund	332,170	279,612
Reconciliation of Governmental Fund Balance to District-Wide Government Activities Net Assets		
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$130,167 and the accumulated depreciation is \$47,890.	<u>82,277</u>	<u>85,662</u>
Total net assets - governmental activities	<u>\$ 414,447</u>	<u>\$ 365,274</u>

The accompanying notes are an integral part of these financial statements.

Excelsior District #1

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year ended June 30, 2008

(with comparative totals for year ended June 30, 2007)

	General Fund	
	2008	2007
Revenues		
Property taxes	\$ 99,805	\$ 103,785
Interest	6,732	6,498
State revenues	275,285	259,168
Federal revenues	27,845	23,482
Other	12,339	9,907
Total revenues	<u>422,006</u>	<u>402,840</u>
Expenditures		
Instruction	243,892	221,415
Supporting Services	108,204	94,482
Payments to other governmental agencies	4,051	21,300
Capital Outlay	13,301	8,743
Total expenditures	<u>369,448</u>	<u>345,940</u>
EXCESS OF REVENUES OVER EXPENDITURES	52,558	56,900
Fund balance, beginning of year	<u>279,612</u>	<u>222,712</u>
Fund balance, end of year	<u><u>\$ 332,170</u></u>	<u><u>\$ 279,612</u></u>

Excelsior District #1

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

For the year ended June 30, 2008
(with comparative totals for year ended June 30, 2007)

	<u>2008</u>	<u>2007</u>
TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ 52,558	\$ 56,900
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceeds depreciation in the period.		
Capital outlays	\$ 11,683	
Depreciation expense	<u>(15,068)</u>	<u>(3,385)</u>
		<u>(6,250)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 49,173</u>	<u>\$ 50,650</u>

Excelsior District #1

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

(with comparative totals for June 30, 2007)

	<u>Agency Fund</u>	
	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents	<u>\$ 1,348</u>	<u>\$ 1,302</u>
LIABILITIES		
Due to student groups	<u>\$ 1,348</u>	<u>\$ 1,302</u>

Excelsior District #1

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The accounting and reporting framework and the more significant accounting principles and practices of Excelsior District #1 (the "School District") are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2008.

The Financial Reporting Entity

Excelsior District #1 is a Michigan public school district consisting of an elementary school. The School District primarily serves the Excelsior Township community. The School District employs three professional staff and one support staff and has 46 students enrolled.

Excelsior District #1's Board of Education (the "Board") is the basic level of government which has oversight responsibility and control over all activities related to the public school education. The Board receives funding from local, State and Federal governmental sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements, since Board members are elected by the public and have decision-making authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, under the criteria of the GASB pronouncements, student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and School District general revenues.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Financial Statements

The balance sheet and statement of revenues, expenditures and changes in fund balances (i.e., fund financial statements) for the School District's governmental funds are presented after the government-wide statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the School District are prepared in accordance with generally accepted accounting principles ("GAAP"). The School District's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The School District's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as needed.

Fund Types and Major Funds

Activities in Major Funds

The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations.

Cash and Equivalents

The School District reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 3 to 50 years. The School District generally capitalizes assets with costs of \$500 or more as purchase and construction outlays occur. No depreciation is recorded on land. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	50 years
Improvements, other than buildings	20 to 25 years
Buses and vehicles	7 to 15 years
Furniture and equipment	3 to 20 years

Fund Equity

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes. Designations of fund balance represent tentative management plans that are subject to change. The School District had no fund balance reservations or designations as of June 30, 2008.

Allocation of Expenses

The School District reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The School District has elected to not allocate indirect expenses. However, depreciation expense directly related to a particular function is included in that function on the statement of activities.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Program Revenues

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the School District's general revenues.

The School District's most significant program revenues are Title I and Small Rural Education Achievement Programs, which are reported as operating grants and contributions.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

NOTE B - BUDGETARY POLICY AND PRACTICE

The School District has adopted these procedures in establishing the budgets as reflected in the financial statements:

1. As early as possible in the preceding fiscal year (generally in the spring), the Superintendent formulates preliminary budgets for the coming year, which he submits to the Board of Education for their review.
2. A public hearing is held prior to June 30 on the proposed budgets to obtain taxpayer comments.
3. The Board of Education reviews the proposed budget and then in June adopts a formal resolution approving the needed appropriations for the coming operating year.
4. All transfers of budget amounts and any amendments to the formal Appropriation Act are approved by the Board of Education.
5. It is the Superintendent's responsibility to supervise and monitor the budget process. He does this by reviewing the monthly financial data and reporting and recommending any needed amendments to the Board of Education.
6. The budget is adopted on a basis consistent with generally accepted accounting principles.
7. The budgets presented in these financial statements are as originally adopted and as formally amended by the Board of Education.
8. All annual appropriations lapse at fiscal year-end.

NOTE C - DEPOSITS AND INVESTMENTS

At June 30, 2008, the School District's cash included bank deposits of \$322,976.

Bank Deposits

All cash of the School District is on deposit with financial institutions which provide FDIC insurance coverage or in highly liquid pooled money funds. Michigan law prohibits collateralization of bank accounts. The investments in the pooled money funds are those permitted by Michigan law.

Michigan law permits investments in the following vehicles:

1. Bonds and other obligations of the United States Government.
2. Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively.
3. Certain commercial paper.
4. United States Government repurchase agreements.
5. Banker's acceptance of United States banks.
6. Certain mutual funds.

In the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2008, \$225,464 of the School District's bank balance of \$326,812 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Interest Rate Risk

In accordance with the School District's investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities, liquid asset funds, money market funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized rating organizations. The School District has no investment policy that would further limit its investment choices.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE

Property Taxes Receivable, Deferred Revenue and Property Tax Calendar

Property taxes are levied, billed and attached as enforceable liens in December of the School District's fiscal year. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the county and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred revenue. In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

During the fiscal year, \$18.00 per \$1,000 of equalized non-homestead property value of \$5,519,417 million was levied for general operating purposes.

Intergovernmental Receivables and Deferred Revenue

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues deferred in the governmental fund financial statements include unearned revenue and revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Deferred revenue received after 60 days is fully recognized as revenue in the government-wide statements if grantor eligibility requirements are met.

Amounts due from other governments at June 30, 2008 are as follows:

Due from the State of Michigan	
State Aid	\$50,003
Due from Federal Grants	<u>1,304</u>
	<u>\$51,307</u>

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2008</u>
Buildings and improvements	\$ 25,216	\$11,683	\$ -	\$ 36,899
Furniture and equipment	26,817	-	-	26,817
Buses and vehicles	<u>66,451</u>	<u>-</u>	<u>-</u>	<u>66,451</u>
Total depreciable assets	118,484	11,683	-	130,167
Less accumulated depreciation	(32,822)	(15,068)	-	(47,890)
Land	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, net	<u>\$ 85,662</u>	<u>\$ (3,385)</u>	<u>\$ -</u>	<u>\$ 82,277</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - INVESTMENTS IN CAPITAL ASSETS - Continued

Depreciation expense was charged to the function in the statement of activities, as follows:

Unallocated	<u>\$15,068</u>
-------------	-----------------

NOTE F - RISK MANAGEMENT

The School District is exposed to various risk of loss related to torts; theft of, damage to; and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The School District participates in two distinct pools and educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for one policy year exceed normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. Each of the pools maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The School District has not been informed of any special assessments being required.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

NOTE G - PENSION PLAN

The School District contributes to the Michigan Public School Employees' Retirement Systems ("MPERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan, Department of Management & Budget, Office of Retirement Services ("ORS"). MPERS provides retirement, disability, death and post-employment health benefits to plan members and beneficiaries. Member Investment Plan ("MIP") participants receive enhanced benefits compared to Basic Plan participants. Benefits are safeguarded by Article IX, Section 24 of the Michigan Constitution. Public Act 300 of 1980, as amended, assigns authority to establish and amend benefit provisions to the State Legislature. MPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MPERS, P.O. Box 30171, Lansing, MI 48909-7671, by calling (517) 322-5103 or on the State of Michigan's website at www.Michigan.gov.

Funding Policy

Plan members who participate in MIP are required to contribute 3% to 4.3% of their annual covered salary; plan members who participate in the Basic Plan may not contribute to the Plan; and the School District is required to contribute at an actuarially determined rate using the entry age actuarial cost method. The rate was 17.74% for the period July 1, 2007 to September 30, 2007 and 16.72% for the period October 1, 2007 to June 30, 2008 of annual covered payroll. The contribution requirements of plan members and the School District are established and may be amended by the State Legislature. The School District's contributions to MPERS for the years ended June 30, 2008, 2007 and 2006, were \$26,976, \$24,358 and \$20,732, respectively, which is equal to the required contribution for the year.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE G - PENSION PLAN - Continued

Post Employment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for post-employment health care are included as part of the School District's total contribution to the MPSERS plan discussed above.

NOTE H - COMMITMENTS AND CONTINGENCIES

Federal and State Grants

In the normal course of operations, the School District receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Excelsior District #1

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the Year Ended June 30, 2008

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
Revenues					
Local and intermediate sources	\$ 113,221	\$ 116,671	\$ 118,876	\$ 3,450	\$ 2,205
State program revenues	222,198	274,890	275,285	52,692	395
Federal program revenues	34,688	27,917	27,845	(6,771)	(72)
Total revenues	370,107	419,478	422,006	49,371	2,528
Expenditures					
Current					
Instruction	242,334	259,831	244,619	(17,497)	15,212
Supporting Services	142,866	128,471	124,788	14,395	3,683
Other	-	50	41	(50)	9
Total expenditures	385,200	388,352	369,448	(3,152)	18,904
EXCESS OF REVENUES OVER (UNDER)					
EXPENDITURES					
Fund balance, beginning of year	(15,093)	31,126	52,558	46,219	21,432
Fund balance, end of year	279,612	279,612	279,612	-	-
	\$ 264,519	\$ 310,738	\$ 332,170	\$ 46,219	\$ 21,432



DENNIS, GARTLAND & NIERGARTH

Business and Financial Advisors
Our clients' success - our business

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Mary F. Krantz, CPA
Shelly K. Deatford, CPA
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Education
Excelsior District #1

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of *Excelsior District #1* (the "School District") as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Board of Education, management, Michigan Department of Education, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

October 3, 2008



DENNIS, GARTLAND & NIERGARTH

Business and Financial Advisors
Our clients' success - our business

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Shelly K. Bedford, CPA
Heidi A. Wenzel, CPA

AUDIT-RELATED COMMUNICATIONS

To the Board of Education
Excelsior District #1

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Excelsior District #1 (the "School District") for the year ended June 30, 2008, and have issued our report thereon dated October 3, 2008. Professional standards require that we provide you with the following information related to our audit:

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated July 22, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the School District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Internal Controls

As part of our audit, we considered the internal control of the School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Member of



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Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

We consider the following deficiencies to be a *material weakness* in internal controls:

None Noted

We consider the following deficiencies to be significant deficiencies in internal control:

None Noted

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 30, 2008.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Excelsior District #1 are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by Excelsior District #1 during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statement in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Depreciation

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

*Risk Management
Commitments and Contingencies*

No Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

No Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 3, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Excelsior District #1's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Athletic, Student Activity, School Lunch and Other Internal Control Risks

At this spring's MSBO conference, one of the "red-flags" raised was the lack of proper internal controls around cash intensive areas of the school district, such as athletic tickets, school lunch and student activity accounts. As published in regional newspapers, a school district in the Northern Michigan region was recently an unfortunate victim of a \$100,000 embezzlement incident in the school lunch area. Unfortunately, a financial audit does little to provide assurance that your school district has proper procedures in place for these and other high-risk areas.

We suggest closer controls over fundraising monies. We noted that funds raised and used in the student activities fund do not run through the accounting system but are netted together and the excess deposited at the end of the year. We suggest that all funds be deposited and checks be written for expenditures.

This information is intended solely for the use of the Board of Education and management of Excelsior District #1 and is not intended to be and should not be used by anyone other than these specified parties.

We are pleased to serve as the School District's auditors. If there are any questions about the audited financial statements or the contents of this letter, we would welcome the opportunity to discuss them at your convenience.

Dennis, Gartland & Niergarth

October 3, 2008